

Audit Committee – 5th December 2007

Financial systems internal audit report

Executive summary and recommendations

Introduction

Decision

The Committee is asked to approve the Audit report, including management responses, as appropriate.

Background information

HPC's internal auditors PKF performed an audit of the Finance Systems/Dept during the period 5th Nov to 9th Nov 2007 inclusive. Appendix One outlines the results of that audit. Based on the review work, PKF have concluded that HPC's financial systems were satisfactory. Three recommendations were highlighted as areas of improvement to meet best practice.

Resource implications

Nil

Financial implications

Audit fee

Appendices

Appendix One - Financial Systems Audit Report

Date of paper

23rd November 2007

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Financial Systems Review

November 2007

Confidential

Assurance Level: Satisfactory

Key Staff Interviewed: Director of Finance, Simon Leicester, Management Accountant, Charlotte Milner, Financial Accountant, Manj Cheema, Purchase Ledger Officer, Suellan Vassell.

Audit Team: Director, Jon Dee, Auditor, Angela Viridi.



Accountants &
business advisers

Contents

1	Introduction.....	1
2	Executive Summary.....	3
3	Detailed Findings.....	5
4	Action Plan	16
5	Assurance Definitions.....	19

Project timescales

Date project commenced	05/11/07
Date field work completed	09/11/07
Date draft report issued	19/11/07
Date management comments received	20/11/07
Date final report issued	21/11/07

1 Introduction

1.1 In accordance with the 2007/2008 internal programme for the Health Professions Council (“HPC”) that was agreed with the Audit Committee in March 2007, we have undertaken a review of the controls in operation over the organisation’s financial systems.

Key risks and scope of our work

1.2 The key financial risks identified by the HPC for 2007/08 were as follows:

Financial management	Financial processing
Mismatch between Council goals & approved financial budgets	Registrant credit card record fraud
Insufficient cash to meet commitments	Total receipt of correct fee income
Large capital project cost over-runs	Fee change processes not operational by June 2007
Unexpected rise in operating expenses (especially tribunal exceptional costs)	Unauthorised payments to organisations
Loss in value of investment portfolio	Unauthorised payments to personnel
Inability to pay creditors	Mis-signing of cheques (forgery)
Inability to collect from debtors	Expense claim abuse by members
Fund Manager or Money Market provider insolvency	Unauthorised removal of assets (custody issue)

1.3 Our review therefore focused on the internal control arrangements for managing the above risks.

1.4 The following financial risks identified by the HPC are managed through the external audit and other processes. In order to avoid duplication of audit effort, we have not included these as part of this review.

- Tax law non-compliance;
- Non compliance with Privy Council/Treasury Guidelines/UK GAAP/IFRS;

- Qualified opinion received by the Auditors on the Annual Financial Statements; and
 - Late submission of the Financial Statements/Annual Report, beyond sector standards.
- 1.5 The risk of fraudulent applications by registrants will be addressed by our review of the Registration Department, which is scheduled to take place in January 2008.
- 1.6 In view of the significance of various projects to the HPC's finances during 2007/08 and the introduction of additional project reporting requirements by the organisation, we undertook a specific review of these developments as part of our work on financial management.
- 1.7 We also followed up the recommendations that we raised as part of our 2006/07 review to confirm that these had been implemented by management.
- 1.8 The work was carried out primarily by holding discussions with relevant staff and management, reviewing any available documentation and undertaking detailed testing on a sample basis, where required. The audit fieldwork was completed in November 2007.
- 1.9 This report has been prepared as part of the internal audit of the Health Professions Council under the terms of the contract for internal audit services. It has been prepared for the Health Professions Council and we neither accept nor assume any responsibility or duty of care to any third party in relation to it.
- 1.10 The conclusions and recommendations are based on the results of audit work carried out and are reported in good faith. However, our methodology is dependent upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

2 Executive Summary

- 2.1 This report summarises the work undertaken by PKF within the agreed scope of our review of the financial systems in operation at the HPC.

Background

- 2.2 The HPC's budget for 2007/08 anticipates that the organisation will receive around £12.5 million this year from applicants and registrants' fees (£10.4 million - 2006/07). This is the organisation's primary source of income. Around £200,000 is to be received from investment income. The HPC's original budget aims to generate a small surplus of just under £60,000 for 2007/08.
- 2.3 All financial processing is undertaken in-house by the Finance Department using a Sage Line 100 financial system, a standalone Sage payroll system and the LISA Debtors ledger.

Our assessment

- 2.4 Based on our review work, we have concluded that the HPC's financial systems were **satisfactory**. However, we noted some areas where there remains scope for improvement to meet best practice and have therefore raised three recommendations.
- 2.5 There principal findings of our work are set out in the paragraphs below.

Principal findings

- 2.6 Our testing indicated that the HPC's budget setting and financial reporting arrangements were operating effectively. Detailed steps are taken to refine the annual budget each year and to evaluate the underlying assumptions behind the HPC's forecasts within the context of the organisation's Five Year Plan. We noted that detailed management accounts and a commentary on the key variances were prepared every month and that action was taken by management to address any issues arising.
- 2.7 The HPC's reserves policy is to retain an amount equivalent to three average months of operating expenditure (around £3.1 million) in the form of liquid investments and working capital (before deducting deferred income). The level of these reserves is monitored closely. In our view, this approach should enable the HPC to manage any immediate financial pressures (such as tribunal exceptional costs) in the short term.
- 2.8 The HPC's Council and the Finance & Resources Committee were also provided with the reports necessary to enable them to undertake their functions. Nevertheless, we raised one best practice recommendation regarding the need to disaggregate debtor and creditor balances within financial reporting.

- 2.9 Project reporting has also been enhanced during 2007/08. Financial and operational reports are now regularly produced for all key projects. These arrangements, together with the cautious approach adopted by the HPC to procurement should ensure that the risk of project cost overruns is successfully mitigated.
- 2.10 There remains some scope for improving financial processing, although the key month end routines and checks were all operating effectively. Our testing also indicated that tight control is maintained over cash, credit cards and expense claims. However, we noted that the HPC's procedures were not being followed in all cases for date stamping and authorising invoices. We therefore raised two further recommendations in relation to these matters.
- 2.11 Finally, we wish to thank all members of staff for their availability, co-operation and assistance during the course of our review.

PKF (UK) LLP
November 2007

3 Detailed Findings

Background

- 3.1 The HPC's budget for 2007/08 anticipates that the organisation will receive around £12.5 million this year from registrants' fees (£10.4 million - 2006/07). This is the organisation's primary source of income. Around £200,000 is to be received from investment income. The HPC's original budget aims to generate a small surplus of just under £60,000 for 2007/08.
- 3.2 The main components of the organisation's budgeted expenditure for 2007/08 relates to the following departments:
- Communications (£1.1million);
 - Fitness to practice (£3.6 million);
 - Registrations (£2 million); and
 - Facilities management (£0.9 million).
- 3.3 Payroll costs including temporary staff amount to around £4 million each year.
- 3.4 The HPC has net assets amounting to just over £2.5 million. Fixed assets are planned to increase during 2007/08 from £3.7 million at 31st March 2007 to £5.3 million, largely due to the Stannary Street refurbishment project. Financial investments, including deposits and equities are budgeted to remain at around £1.8 million. The HPC had cash holdings of just over £4 million at 31st March 2007. This is expected to reduce progressively to £2.5 million by the end of the financial year as the HPC's capital programme progresses.

Financial management

Budget setting

- 3.5 The Five Year quantifies HPC's Strategic Intent in financial terms. It is used for longer term planning, including fee setting. It is an Excel spreadsheet model containing two years actual results, five years forecasts and the current year budget. The model also includes the main non-financial trends (e.g. growth of registrant numbers) together with inflation estimates.
- 3.6 The Five Year Plan is generally updated between August and October following detailed discussions with budget holders to reflect updates to the assumptions previously made. A draft version of the revised plan is then considered by the Executive Management Team ("EMT") and reviewed against the HPC's strategy and objectives going forward.

- 3.7 Once EMT has approved the Five Year Plan, a final version is sent to the Chief Executive, Finance and Resources Committee and Council for approval.
- 3.8 The preparation of the annual budget is co-ordinated by the Finance Department in accordance with a timetable designed to enable the Finance & Resources Committee and the Council to approve the budget in March.
- 3.9 The Management Accountant prepares a budget preparation pack for budget holders including the Five Year Plan targets, prior year actual results, latest estimated spend for the current year, budget lines and instructions.
- 3.10 Budget holders are required to complete a standard template setting out their expected expenditure budgets for the coming year. These are then discussed with them in detail by the Chief Executive, the Director of Finance and the Management Accountant. The budget is then updated to reflect these discussions and further review meetings are held where necessary to arrive at a final version. Budget holders are required to sign up formally to confirm their ownership of the budget. Our sample testing confirmed that this was the case.
- 3.11 The Management Accountant prepares the income budget. This is produced following discussions with the Policy and Registrations Departments and the Operations Director and draws upon the latest estimate of current year income and the Five Year Plan.
- 3.12 Once all the budget submissions have been received, the Management Accountant collates the data to produce an overall draft HPC budget for discussion with the Director of Finance and the Chief Executive.
- 3.13 Once they have approved the budget it is then presented to the Finance & Resources Committee for consideration before being recommended to Council for approval.
- 3.14 Our review indicated that the annual budget for 2007/08 was prepared in accordance with the HPC's strategic objectives and approved by the Finance & Resources Committee and Council.
- 3.15 In our view the arrangements set out above meet best practice and enable the HPC to effectively manage the risk that there may be a mismatch between Council goals and approved financial budgets.

Budgetary control and financial reporting

- 3.16 We noted that management accounts are produced on a monthly basis. The Finance Department aims to issue these within fifteen working days of each month end. These include detailed management accounts for income and operating expenditure, income by profession, expenditure report by department, balance sheet, capital expenditure analysis against budget and a cash flow forecast.

- 3.17 In our view the detailed information provided in the management accounts enables EMT and the Finance Department to monitor and to take the necessary action to address cash flow shortfalls (the cash flow forecast), unexpected rises in operating expenses - especially tribunal exceptional costs- (income and expenditure account) and loss in value of the HPC's investment portfolio (balance sheet).
- 3.18 The balance sheet also highlights the HPC's working capital position enabling management to assess the organisation's success in collecting debts when they fall due and its capacity to pay creditors on time.
- 3.19 The HPC's reserves policy is to retain an amount equivalent to three average months of operating expenditure (around £3.1 million) in the form of liquid investments and working capital (before deducting deferred income). The level of these reserves is monitored closely. As at 30th September 2007 we noted that the sum of working capital and investments amounted to £4.8 million. In our view, this approach should enable the HPC to manage any immediate financial pressures (such as tribunal exceptional costs) in the short term.
- 3.20 However, we noted that the balance sheet reported in the management accounts to 30th September included a credit balance of just over £10,000 for debtors indicating that some aggregation with creditor items may have taken place. Since it is best practice to disaggregate debtor and creditor balances in financial reporting we have raised the following recommendation.

Recommendation

R1. Assets and liabilities should be shown separately in future balance sheet reporting.

- 3.21 The Finance Department monitors the extent to which it has achieved the fifteen day target and we noted that for the period between April and August 2007 the management accounts had been completed on time, with the exception of May where the preparation of the HPC's statutory accounts took precedence. Nevertheless, the management accounts for July were still produced within eighteen working days of the month end, which remains a good level of performance.
- 3.22 The management accounts are reviewed in detail by EMT each month. The Management Accountant prepares a narrative summary (Variance Commentary) explaining the key variances and drivers of the HPC's financial position. Where issues arise, we noted that EMT takes effective action to address them.

- 3.23 For example, the management accounts for September 2007 include an adverse registration income variance against the year to date budget of just over £621,000, including both non-reversing and timing differences.
- 3.24 We understand the non-reversing portion of the income shortfall was largely due to a lower than anticipated level of international scrutiny fee income due to international registrant volumes being below estimate.
- 3.25 Due to errors in phasing the budgeted income over twelve months instead of the period June to March, there was a variance in the first half of the year which should reverse in the later months.
- 3.26 In response to the international scrutiny fee income being below forecast, the EMT met in September and reviewed the HPC's expenditure budget to identify corresponding cost savings. These were further incorporated into the 6 month forecast.
- 3.27 We are advised that the financial position will continue to be scrutinised closely by EMT as the year progresses. A revised financial forecast was prepared as at 30th September and a further forecast is scheduled at the nine month period to 31st December.
- 3.28 The Finance & Resources Committee routinely receives a copy of the latest year to date Variance Commentary and Management Accounts. The Council routinely receives a copy of the summarised financials which is presented as part of the Chief Executive's Report to Council.

Project reporting

- 3.29 During the year, the HPC has enhanced its management reporting to include summaries of the financial and operational status of its various capital and operational projects.
- 3.30 Our review of the September 2007 management accounts indicated that the financial reports set out the actual expenditure against budget and highlight the key variances.
- 3.31 The Management Accountant's Variance Commentary also provided a specific explanation of the variances on each project. In addition, a major projects scorecard has also been introduced, which sets out the status of each individual project using a traffic light system to draw attention to any areas of concern.
- 3.32 Inevitably, issues will arise between committee meetings that may require urgent management attention. Where project issues have a wider organisational impact they are considered by EMT at its weekly meetings.
- 3.33 In our view these arrangements meet best practice and enable the HPC to manage the risks of project overruns.

- 3.34 For the most significant project (the Stannary Street refurbishment) we also noted that management has adopted a cautious approach to the procurement, agreeing a fixed price and passing as much of the financial risk as possible to the main contractor.
- 3.35 This has enabled the HPC to limit its exposure to large capital project cost over-runs.
- 3.36 We have therefore concluded the HPC's financial management arrangements were sound and have not raised any recommendations in relation to this area.

Financial processing

Income systems

- 3.37 Income from registration fees is charged in accordance with the Fees Order approved by Parliament. Since June 2007, the following fees have been chargeable across all professions:
- Initial registration fee of £50;
 - Readmission fee (registrant comes back on to the register) of £110;
 - Yearly registration renewal of £72/ six monthly renewal of £36;
 - One-off international scrutiny fee of £400; and
 - One-off grand-parenting scrutiny fee of £400.
- 3.38 Payment methods include direct debit, credit cards and cheques. Scrutiny fees cannot be paid for by direct debit. Just over 80% of registration income is received by direct debit thereby significantly reducing the HPC's exposure to debt collection risks or mail strikes. As part of the registration process, potential registrants are encouraged to provide the Registration Department with direct debit instructions. These details are then scanned and input into the LISA system and the physical mandate is sent off to the bank of the registrant. A period of fifteen working days is permitted between sending the mandate to the bank and collecting the fee so that the bank can activate the direct debit instruction.
- 3.39 The Finance Department match and post direct debit receipts to the Registrants' accounts on the LISA system using payment reports downloaded from BACS. Rejections arise when the HPC receives notice from the registrant's bank (bank statement) that their direct debit mandate arrangement has been rejected. In these circumstances, the Transactions Manager contacts the registrant by letter within 10 days of receiving bank notification, and three weeks grace is allowed for them to pay the fee owing or to set up a new direct debit.
- 3.40 If no contact is made by the end of the three weeks, the registrants is advised in writing by the Finance Department that they will be lapsed from the register and will have to go through the readmission process to come back onto the register.

- 3.41 Credit card income is received from the UK and International Registrations Departments. The receipts are significantly different. At the end of each day both departments print off a reconciliation report from their Streamline credit card machines and check it to a reconciliation listing of all the transactions posted by their individual departments to confirm that all credit cards payments have been received and recorded - thereby mitigating the risk of credit card fraud.
- 3.42 Cheques for fee income are received through the post. Mail is received in the post room and distributed to the various departments. The Registration Department inputs the money received from the registration applicant onto the LISA system and records the income on individual logs titled "General Cheques Received."
- 3.43 On a daily basis the cheques are taken to the Finance Department and kept overnight in a locked safe. There are two keys for the safe (one is kept by the Financial Accountant and other kept by the Facilities Manager).
- 3.44 Each morning the Transactions Officer checks the cheques received to the log and to LISA and evidences this check on the log. The paying in slip is completed and monies are banked daily. The Courier company (TNT Express) signs for receipt of the cheques and postal orders and the Finance Department also signs the courier sheet.
- 3.45 Registrants can seek a refund of their registration, by three methods – voluntary removal, becoming lapsed from the register with credit on their account and overpayment. Refunds can only be paid by cheque in accordance with the HPC's cheque payment procedures. Only Finance Department staff members can action refunds on LISA and issue cheques.
- 3.46 Our sample testing indicated that these controls were operating effectively. Our testing also indicated that that the risk of fee change processes not being operational by June 2007 had been successfully managed and the correct fees were being collected from registrants.

Expenditure systems

- 3.47 Payroll costs are the most significant area of expenditure incurred by the HPC, representing around 28% of total budgeted expenditure for 2007/08. As a result, the number of full time equivalent staff is benchmarked against other regulatory bodies and considered carefully as part of the annual budget setting process. The Management Accountant obtains details of all proposed new posts from budget holders. These are sent to the Director of Human Resources in the first instance to obtain a salary rating ("IDS"). Posts are then discussed with the Chief Executive before being incorporated within the HPC's annual budget.
- 3.48 Payroll is processed on a Sage stand alone system within the Finance Department. System access is password restricted to two members of the Finance Team.

- 3.49 Permanent payroll changes such as starters, leavers and salary changes are initiated upon receipt of the relevant supporting documentation from the HR Department. For example for all new employees a copy of their employment contract, P45 and payroll detail form are required before the individual can be set up on the HPC's payroll.
- 3.50 Temporary amendments to the payroll such as overtime can only be processed upon receipt of an overtime claim form that has been signed by the relevant line manager.
- 3.51 Before processing the payroll, each departmental manager is emailed the staff cost break down for their department requiring them to confirm the amount to be charged against their budget. The Human Resources Department is also emailed the total number and names of employees that are about to be paid so that these can be checked for "ghost" employees.
- 3.52 Two pay runs are undertaken each month: one for employees and one for Council and Committee members. An excel spreadsheet (payroll summary form) is used to update the payroll system for any amendments required. The pay run is then prepared and a pre-check folder is also produced including the key payroll reports for the month.
- 3.53 The reports are reviewed and signed by the Director of Human Resources, the Director of Finance and the Chief Executive before the payment is authorised. Payments are made using the Natwest Autopay facility. The Autopay and Credit Transfer forms require the signature of two individuals included on the HPC's bank mandate before being faxed to Natwest for processing.
- 3.54 Our sample testing indicated that these controls were operating effectively and should ensure that the risk of unauthorised payments to personnel is mitigated.
- 3.55 The remaining £9 million of the HPC's annual budgeted expenditure is subject to purchase ledger controls and procedures.
- 3.56 There are four main categories of purchase ledger transaction as follows:
- Council/ committee members' allowances and expenses;
 - Partners' expenses;
 - Employees' expenses; and
 - Purchases from suppliers.
- 3.57 There are three possible tax categories for Council/ Committee members. Category 1 members are treated as office holders and payments to them are therefore processed through the HPC payroll in accordance with the procedures described in the paragraphs above.

- 3.58 Category 2 members claim expenses through their employer. The employer invoices the HPC and the invoice is processed through the purchase ledger. Category 3 members are registered as self-employed. Members are required to declare their tax status upon appointment and complete the declaration forms. These are held on file in the Finance Department.
- 3.59 Category 2 and 3 members are required to complete a claim form, attaching the supporting receipts for all claims above £5 before submitting the claim to the Finance Department for processing. The Transaction Officer date stamps the forms received. The Purchase Ledger Officer then completes a Purchase Ledger Detail form and records the claim as “unauthorised” on the purchase ledger. The claim is then sent to the relevant budget holder for authorisation.
- 3.60 Partners include visitors, registration, legal and medical assessors, panel members and chairmen. In almost all cases they are deemed to be self-employed and are required to complete a Partners Expense Claim form, attaching the relevant invoice, which is checked and authorised in the same way as for category 2 and 3 members.
- 3.61 Employees are required to complete an expense claim form, attaching the supporting receipts for all claims above £5 and obtaining authorisation from their line manager (or the Chief Executive or three members of EMT in the case of Directors) before submitting the claim to the Finance Department for processing in accordance with the purchase ledger procedures noted above. Claims made by the Chief Executive require the authorisation of the President and the Director of Finance.
- 3.62 Our sample testing indicated that the HPC’s procedures for processing were operating effectively and should mitigate the risk of expense claim abuse by members, partners and employees.
- 3.63 Purchases from suppliers are to be made in accordance with the following procedures. Each department is required to complete a pre-numbered, three part purchase order which must be approved by a budget holder or their delegate named on the purchase order/ invoice signatory list. The department send the white copy of the order to the suppliers directly and retain the blue and pink copies.
- 3.64 Invoices are sent to the Finance Department by the supplier. Upon receipt of the supplier invoices, the Finance Department date stamp and sign these and attach them to a Purchase Ledger Detail form. The invoices are batched and posted to the purchase ledger “unauthorised invoices” control account.
- 3.65 The supplier invoice and payment authorisation sheet is then sent to the budget holder for payment approval. Transactions above £8,000 require the additional authorisation of the Chief Executive. The President is required to countersign transactions above £25,000.

- 3.66 The budget holder signs the Purchase Ledger Detail form, codes the expense and attaches the pink copy of the purchase order. These controls should mitigate the risk of unauthorised payments to suppliers. The Financial Accountant subsequently reviews the expense codes and amends as necessary e.g. capitalises the item before updating the invoice details on the purchase ledger.
- 3.67 Our sample testing indicated that controls over payments to suppliers were operating effectively in most cases.
- 3.68 However, we noted one transaction amounting to just over £14,000 that had been processed without having been countersigned as authorised by the Chief Executive. Although this was a bona fide business expense, we have raised the following recommendation.

Recommendation

R2. Purchase ledger staff should be reminded not to process invoices that have not been duly signed by the officers required by the HPC's scheme of delegation.

- 3.69 We also noted that in three cases the supplier invoices received by the Finance Department had not been date stamped as required by the organisation's financial procedures. This matter was raised in our previous review of the HPC's financial systems (February 2007) and our findings are therefore set out in the relevant paragraphs below covering our follow up work.
- 3.70 Purchase ledger payments are made by BACS, manual cheque or e-banking. Payment runs are undertaken every two weeks. The Purchase Ledger Officer prepares a Suggested Payment Run report and attaches the relevant invoices, which are reviewed by the Director of Finance who signs and dates the relevant report. The e-banking report is reviewed by the Chief Executive. For BACS payments, a BACS form is completed and checked back to the relevant payment report before it is faxed to Natwest for processing.
- 3.71 Blank manual cheques are held securely in the safe. All cheques need to be signed by two individuals included on the HPC's bank mandate. The signatories check the invoice details and the payment report before signing the cheques.
- 3.72 Our testing indicated that these controls were operating effectively. We noted that manual cheques are rarely issued and are checked carefully. This should enable the HPC to mitigate the risk of forged cheques.

Main accounting and balance sheet systems

- 3.73 The HPC currently uses the Sage Line 100 financial system. The key routines that are undertaken to close down the various ledgers at month end are as follows.

- 3.74 Before closing down the purchase ledger the Purchase Ledger Officer confirms that there are no remaining invoices or expenses to be posted. An aged creditors report is then printed off and reviewed to ensure that no duplicate or incorrect postings have been made and checked to confirm that the total agrees to the balance recorded on the nominal ledger.
- 3.75 The HPC's sales income is recorded on the LISA system and then imported to the Sage nominal ledger in batches during the month.
- 3.76 Interface reports are produced to confirm that the transactions recorded on the LISA system have been correctly imported into Sage. The unused Sage sales ledger still however needs to be closed down at month end.
- 3.77 As noted above, the HPC's payroll is processed on a standalone system and journalled into the nominal ledger when the pay runs have been processed. The fixed asset register is Excel based and any movements on fixed assets are also entered into the nominal ledger by journal. Written procedures have been established to control the purchase and disposals of fixed assets, thereby mitigating the risk of unauthorised purchases or theft of assets.
- 3.78 Once the bank reconciliation has been completed the Sage cash book can be closed down. Control account reconciliations are prepared for the key balance sheet accounts and agreed to the trial balance, including bank account reconciliations.
- 3.79 Our sample testing indicated that these controls were operating effectively.
- 3.80 Finally, the HPC's investment portfolio is currently valued at approx £1.9 million. This is professionally managed by an Investment management company (Rensburg, Sheppards Investment Management Ltd). The annual fund performance is reviewed by the Finance & Resources Committee in November each year, along with the Investment Policy.
- 3.81 The fund managers also provide the HPC with a monthly investment valuation report (summary and detail) to the Management Accountant to update the valuation in the Management Accounts. In our view, these regular review and reporting procedures should enable the HPC to identify and manage the impact of any fall in the value of its investment portfolio and to identify any concerns relating to the ongoing solvency and capability of its fund managers.
- 3.82 We have not therefore raised any recommendations in relation to this area.

Follow up of our previous recommendations

- 3.83 In our previous report on the HPC's financial systems dated February 2007, we raised eight recommendations in relation to the following areas:
- Expense claims policies;

- Fixed asset disposals;
- Fixed asset reconciliations;
- Budget holders' budget sign off;
- Finance system password controls;
- Journal authorisation; and
- Date stamping purchase ledger invoices.

3.84 We are pleased to note that management has largely addressed all of our suggested improvements. However, our sample testing indicated that our recommendation regarding date stamping supplier invoices on receipt had not been implemented in full. We have therefore re-raised our recommendation as follows.

Recommendation

R3. Finance Department staff should be reminded to date stamp supplier invoices upon receipt.

4 Action Plan

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R1	<p>Budgetary control and financial reporting</p> <p>We noted that the balance sheet reported in the management accounts to 30th September included a credit balance of just over £10,000 for debtors indicating that some aggregation with creditor items may have taken place. It is best practice to disaggregate debtor and creditor balances in financial reporting.</p>	Assets and liabilities should be shown separately in future balance sheet reporting.	Low	<p>In SAGE financial system, Debtors nominal codes run from 5001-5006 inclusive while Creditors nominal codes run from 6301 to 6401 inclusive. In future Management Accounts reporting, debtors and creditors balances will be disaggregated.</p> <p><i>Director of Finance</i></p>	From December 2007 financial reporting

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R2	<p>Expenditure systems</p> <p>Our sample testing indicated that controls over payments to suppliers were operating effectively in most cases. However, we noted one transaction amounting to just over £14,000 that had been processed without having been countersigned as authorised by the Chief Executive as required by financial procedures.</p>	<p>Purchase ledger staff should be reminded not to process invoices that have not been duly signed by the officers required by the HPC's scheme of delegation.</p>	Medium	<p>Recommendation to be actioned and staff will be reminded accordingly.</p> <p><i>Director of Finance</i></p>	December 2007

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R3	<p>Follow up of our previous recommendations</p> <p>We are pleased to note that management has largely implemented all our suggested improvements. However, our sample testing indicated that our recommendation regarding date stamping supplier invoices on receipt as required by the organisation's financial procedures had not been implemented in full.</p>	<p>Finance Department staff should be reminded to date stamp supplier invoices upon receipt.</p>	Low	<p>Recommendation to be actioned and staff will be reminded accordingly.</p> <p><i>Director of Finance</i></p>	December 2007

5 Assurance Definitions

Assurance Level	Definition
Sound	Satisfactory design of internal control that addresses risk and meets best practice and is operating as intended.
Satisfactory	Satisfactory design of internal control that addresses the main risks but falls short of best practice and is operating as intended.
Satisfactory in Most Respects	Generally satisfactory design of internal control that addresses the main risks and is operating as intended but either has control weaknesses or is not operating fully in some significant respect.
Satisfactory Except For.....	Satisfactory design of internal control that addresses the main risks and is operating as intended in most respects but with a major failure in design or operation in the specified area.
Inadequate	Major flaws in design of internal control or significant non operation of controls that leaves significant exposure to risk.